

United States Assets and Investments Abroad

Private Capital Outflow at Peak in 1960

Earnings Score Broad Advance

UNITED STATES business concerns and other private investors, responding to continued economic growth in many countries and to possibilities for invest-

ing liquid funds profitably abroad, added over \$5 billion to their assets and investments abroad in 1960, raising their total holdings to more than \$50 billion.

Direct investments in subsidiaries and branches were pushed forward in most areas at a more rapid pace in 1960 than in 1959, though there were sharp reductions in certain situations, notably in resource development in some Latin American countries. In total, direct investment capital flows increased from \$1.4 billion to \$1.7 billion. About \$200 million of this rise in direct investment capital outflows reflected increased cash outlays to purchase minority interests held by foreigners in existing subsidiaries abroad.

Although only limited data on direct investment capital flows in 1961 are now available, it appears that the total is likely to remain near the 1960 amount. Companies reporting on their expected outlays abroad for plant and equipment this year indicate substantial gains in both the manufacturing and petroleum industries, with little or no reduction projected for 1962. These data will be given in detail in the SURVEY OF CURRENT BUSINESS for September as part of a report on sources and uses of funds of direct-investment enterprises abroad.

Earnings of the direct investment enterprises improved in all major indus-

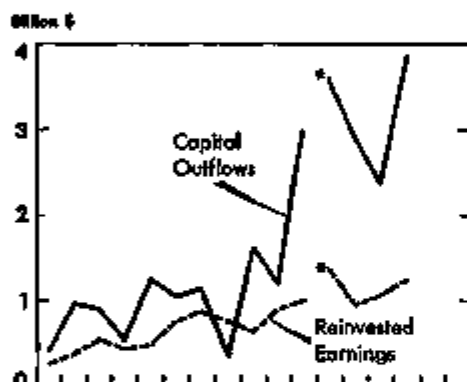
tries in 1960, and in nearly all countries. Aggregate earnings rose by 8 percent to about \$3.5 billion, nearly equal to the peak reached in 1957. Of this total, foreign subsidiaries retained abroad about \$1½ billion, up from \$1.1 billion in 1959.

The principal element in the overall rise in capital outflows in 1960 was the sharp rise in the flow of short-term funds to capital markets abroad. In contrast to the experience of earlier postwar years, when there were moderate outflows in most years corresponding in large part to the need for working balances to finance larger volumes of international transactions, the 1960 outflow appeared to result primarily from higher interest rates abroad, and to some extent from apprehensions about economic and political developments in the United States. These outflows have been greatly reduced since the first quarter of 1961, as discussed below.

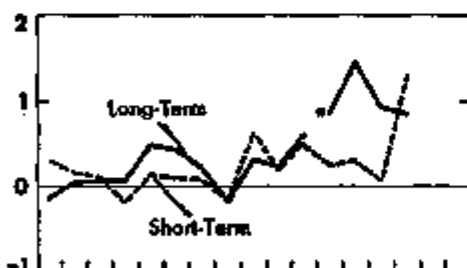
Other private capital outflows dropped slightly in 1960, though remaining at a substantial rate of \$850 million annually. Sales of new issues of foreign securities in the United States, especially Canadian issues, were lower, and continue to decline, and medium-term lending by U.S. banks has also been reduced. However, there was a resumption in the first half of 1961 of substantial purchases of foreign equity securities.

Private Capital Outflows Reached a Postwar High in 1960

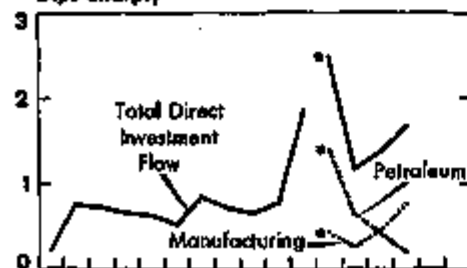
Reinvested Earnings Continued Strong



Short-Term Capital Outflows Accounted for Most of 1959 to 1960 Upturn



Direct Investment Flow Raised by Manufacturing Investments; Petroleum Dips Sharply



* Revised Series

U. S. Department of Commerce, Office of Business Economics 61-6-10

Direct Investments Abroad

WITH both capital outflows and reinvested earnings high in 1960, the value of direct investments abroad rose by \$2.9 billion in the year to an accumulated total of \$32.7 billion. Nearly half of the expansion represented the growth

of manufacturing investments in many countries, bringing the total invested in this industry to \$11.2 billion.

The buildup of petroleum investments has now fallen considerably behind manufacturing investments, accounting

Table 1.—Factors Affecting U.S. Private Investments Abroad, 1959 and 1960

(Millions of dollars)		
Type of investment	1959	1960
Direct investments		
Value, beginning of year.....	27,387	29,805
Add: Capital outflow ¹	1,372	2,004
Reinvested earnings.....	1,080	1,254
Other adjustments ²	-48	-9
Value, end of year.....	29,805	32,744
Other long-term private investments		
Value, beginning of year.....	10,261	11,417
Add: Capital outflow ¹	925	850
Price changes.....	240	345
Value, end of year.....	11,417	12,612
Short-term assets		
Value, beginning of year.....	3,483	3,546
Add: Capital outflow ¹	77	1,312
Adjustments ²	51	1
Value, end of year.....	3,611	4,859
Combined change:		
Capital outflow.....	2,474	3,967
Reinvested earnings.....	1,080	1,254
Other factors.....	218	337

¹ Included in the balance-of-payments accounts.² Mainly changes in coverage, reclassifications, or revaluations.

for only about 20 percent of the 1960 combined total of capital outflows and reinvested earnings. Of the other industries, trade continues to grow in importance, mining investments were at a reduced rate in 1960, agricultural enterprises were not expanding in the aggregate, and growth in utilities was largely in the operation of ocean shipping and pipelines.

Mixed trends in Latin America

Because of the comparatively small overall capital flow for direct investment in Latin America—about \$100 million in 1960—there has been some concern that political instability and losses in Cuba have stifled investor interest. However, the more detailed figures now available do not appear to support this view.

The sharp decline in capital outflows to this area reflected primarily a return to the United States of funds from mining properties in a few countries as expansion was completed and production began, together with continued relatively low activity in the petroleum industry resulting in a net capital inflow from Venezuela. These developments affected primarily Venezuela, Chile and Peru. Part of the

overall decline was also attributable to Cuba, where capital flows exceeded \$60 million in 1959 and have now virtually ceased. Nearly all of the U.S. investments in Cuba have now been seized, but they have not been written off in these tabulations.

In contrast to these developments, manufacturing ventures by U.S. companies in Latin America were expanded at a record rate in 1960, and appear likely to continue at a high rate in 1961. Most of the increase over 1959 was in capital flows from the United States, augmented by larger amounts of retained earnings as profits in the area rose. Capital outflows for manufacturing were increased in 1960 to most countries in Latin America, especially to Mexico, Brazil, Argentina and Venezuela.

Increased flows to Canada

Capital flows for direct investment in Canada rose to nearly \$600 million in 1960, with most of the rise in the mining and petroleum industries. The capital flow for manufacturing was the lowest in many years, and was about \$100 million less than in 1959, when it included a special outflow to purchase minority interests.

Projected plant and equipment expenditures for Canada indicate only minor changes in manufacturing and petroleum in 1961 and 1962 from the 1960 amounts, but a considerable reduction in mining. However, the flow of funds from parent companies in the United States will also be affected by differential interest costs in the two countries and expectations about the exchange rate.

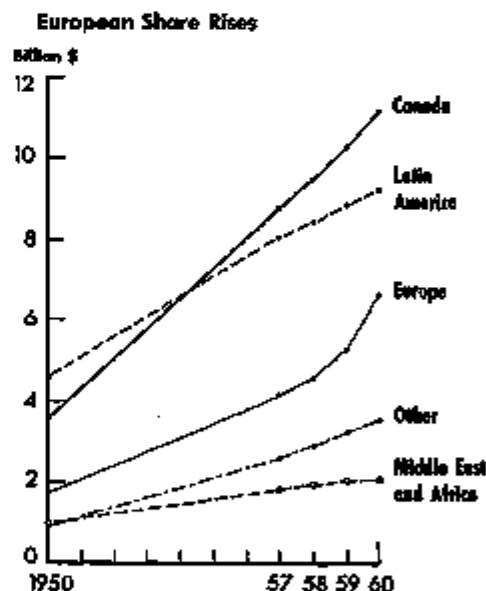
European investment at peak

Over \$1½ billion was added to U.S. direct investments in Europe in 1960, raising the accumulated value to \$6.6 billion. The previous high was the \$725 million added in 1959, and about \$300 million of the difference represented larger cash outlays by U.S. companies in 1960 to acquire minority interests in existing manufacturing companies. There remained, however, a broad upturn in investments in most countries and industries,

Common Market countries received capital outflows of \$280 million from U.S. companies in 1960, plus over \$150 million of reinvested earnings. Of the combined total, nearly \$300 million went into manufacturing—double the 1959 amount—and petroleum investments were also raised. Nearly half of the amount added to direct investments in this area in 1960 went to Germany, and there were also substantial gains in the other Common Market countries.

The capital flow to the United Kingdom was extraordinarily high in 1960 because of the special transaction mentioned above—without this transaction there would still have been a moderate increase over the 1959

GROWTH OF DIRECT FOREIGN INVESTMENTS, BY AREA



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amount, mainly for larger petroleum investments. In the case of Sweden, there was a reduction in manufacturing investments as an old-established interest in a Swedish company was sold out.

A continued and perhaps increased flow of investment capital to Europe may be required to finance the steep rise in plant expansion by U.S. companies under way in 1961 and scheduled to remain large in 1962.

Table 2.—Value of Direct Investments Abroad, by
Table 3.—Direct-Investment Capital Flow and Undistributed Subsidiary
Table 4.—Direct-Investment Earnings and Income,¹

(Millions of dollars)

Line	Area and country	Table 2										Table 3						
		1950	1957	1958	1959	1960 *						Not capital outflows						
						Total	Min- ing and smelt- ing	Petrol- eum	Trans- por- tation	Public utili- ties	Trade	Other	1959	Total	Min- ing and smelt- ing	Petrol- eum	Manu- factur- ing	Other
1	All areas, total.....	11,784	25,324	27,387	28,865	32,744	3,413	10,944	11,152	2,546	2,297	2,632	4,372	1,824	133	455	802	278
2	Canada.....	1,479	2,702	2,478	30,318	11,193	1,329	2,667	4,827	675	630	1,300	417	471	262	138	31	39
3	Latin American Republics, total.....	4,445	7,424	7,761	9,958	8,355	1,155	2,883	1,610	1,131	718	879	218	55	-73	-7	125	39
4	Mexico, Central America and West Indies, total.....	1,488	2,234	2,355	2,516	2,020	245	300	530	365	283	601	81	68	26	24	27	-8
5	Cuba.....	612	840	870	956	958	(*)	147	111	313	44	341	63	(*)	(*)	(*)	(*)	(*)
6	Dominican Republic.....	106	88	93	87	88	(*)	(*)	(*)	6	2	58	-7	(*)	(*)	(*)	(*)	(*)
7	Guatemala.....	106	106	116	132	131	(*)	20	(*)	0	5	34	14	(*)	(*)	(*)	(*)	(*)
8	Honduras.....	62	106	114	110	100	(*)	(*)	(*)	33	1	78	-4	(*)	(*)	(*)	(*)	(*)
9	Mexico.....	418	729	745	758	706	180	32	361	118	86	29	-7	40	26	(*)	(*)	(*)
10	Panama.....	66	201	285	327	406	17	50	9	22	145	155	18	30	(*)	(*)	(*)	(*)
11	Other countries.....	100	143	140	146	145	16	32	11	37	10	50	4	14	(*)	(*)	(*)	(*)
12	South America, total.....	2,857	4,200	5,300	5,822	5,745	800	2,570	1,079	645	425	236	137	27	158	13	13	13
13	Argentina.....	334	333	330	306	472	(*)	(*)	213	213	21	239	20	20	(*)	(*)	(*)	(*)
14	Brazil.....	644	833	706	828	953	30	70	515	200	180	23	21	53	2	24	24	24
15	Chile.....	510	696	657	720	736	517	(*)	22	22	12	158	35	35	(*)	(*)	(*)	(*)
16	Colombia.....	162	286	283	304	324	(*)	23	23	23	28	28	11	15	(*)	(*)	(*)	(*)
17	Peru.....	145	383	480	428	446	351	70	23	70	43	20	18	18	(*)	(*)	(*)	(*)
18	Uruguay.....	55	57	61	45	47	(*)	(*)	(*)	(*)	4	23	4	(*)	(*)	(*)	(*)	(*)
19	Venezuela.....	583	2,463	2,658	2,000	2,500	(*)	1,005	180	22	105	197	-22	-160	(*)	(*)	(*)	(*)
20	Other countries.....	31	64	84	90	97	(*)	(*)	(*)	(*)	34	21	12	-1	(*)	(*)	(*)	(*)
21	Western Hemisphere dependencies.....	131	515	635	768	884	176	333	21	43	64	162	48	64	14	31	(*)	30
22	Europe, total.....	1,735	4,151	4,619	5,323	5,448	49	1,724	3,797	45	734	201	484	952	(*)	272	607	81
23	Common Market, total.....	637	1,630	1,968	2,308	2,444	9	827	1,486	20	254	90	180	282	(*)	73	182	27
24	Belgium and Luxembourg.....	89	193	236	211	231	(*)	52	146	1	20	4	-3	16	(*)	(*)	(*)	(*)
25	France.....	317	404	518	640	741	(*)	223	402	10	78	21	51	63	(*)	(*)	(*)	(*)
26	Germany.....	204	281	358	790	1,000	(*)	215	638	2	55	22	78	133	(*)	(*)	(*)	(*)
27	Italy.....	85	233	280	315	384	(*)	180	170	1	25	23	21	55	(*)	(*)	(*)	(*)
28	Netherlands.....	84	181	287	245	283	(*)	143	83	15	36	9	31	31	(*)	(*)	(*)	(*)
29	Other Europe, total.....	1,096	2,471	2,068	2,116	4,041	40	809	2,261	17	482	201	304	680	(*)	200	425	54
30	Denmark.....	32	43	46	46	67	(*)	45	16	(*)	0	2	19	18	(*)	(*)	(*)	(*)
31	Norway.....	24	51	53	82	83	(*)	42	21	(*)	4	15	12	17	(*)	(*)	(*)	(*)
32	Spain.....	21	44	48	53	59	(*)	17	27	(*)	3	4	2	2	(*)	(*)	(*)	(*)
33	Sweden.....	58	109	107	125	114	(*)	84	18	(*)	20	6	21	11	(*)	(*)	(*)	(*)
34	Switzerland.....	25	60	82	194	254	(*)	7	91	(*)	104	53	27	27	(*)	(*)	(*)	(*)
35	Turkey.....	10	63	54	44	65	(*)	55	2	(*)	4	1	10	10	(*)	(*)	(*)	(*)
36	United Kingdom.....	847	1,974	2,147	2,477	2,104	(*)	600	2,184	9	268	134	190	589	(*)	139	422	28
37	Other countries.....	68	119	127	143	162	(*)	75	22	(*)	35	3	12	(*)	(*)	(*)	(*)	(*)
38	Africa, total.....	287	684	746	628	928	247	467	116	5	61	24	38	61	14	52	15	9
39	North Africa.....	50	166	121	145	183	(*)	172	7	(*)	4	6	22	61	(*)	(*)	(*)	(*)
40	East Africa.....	12	20	33	43	46	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
41	West Africa.....	41	147	153	228	280	(*)	80	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
42	Central and South Africa, total.....	177	384	407	416	384	(*)	114	110	(*)	34	16	-13	-13	(*)	(*)	(*)	(*)
43	Rhodesia and Nyasaland.....	20	50	55	72	82	(*)	72	(*)	(*)	2	9	1	1	(*)	(*)	(*)	(*)
44	Union of South Africa.....	140	301	321	323	283	(*)	108	(*)	(*)	31	190	-11	-18	(*)	(*)	(*)	(*)
45	Other countries.....	12	21	22	21	24	(*)	(*)	(*)	(*)	2	22	(*)	(*)	(*)	(*)	(*)	(*)
46	Asia, total.....	1,601	2,919	2,178	2,237	2,315	24	1,685	280	163	637	110	2	-20	2	-57	14	20
47	Middle East.....	602	1,136	1,224	1,213	1,168	(*)	1,110	20	3	7	7	-2	-72	(*)	-76	(*)	(*)
48	Far East, total.....	999	1,783	954	1,024	1,147	(*)	575	260	59	130	103	5	52	(*)	20	(*)	(*)
49	India.....	38	113	120	134	158	(*)	51	51	2	12	63	3	13	(*)	(*)	(*)	(*)
50	Indonesia.....	59	100	100	163	178	(*)	(*)	(*)	(*)	1	168	-14	2	(*)	(*)	(*)	(*)
51	Japan.....	19	186	181	286	284	(*)	(*)	(*)	(*)	27	136	14	18	(*)	(*)	(*)	(*)
52	Philippine Republic.....	149	305	341	347	414	(*)	(*)	(*)	(*)	62	68	22	0	(*)	(*)	(*)	(*)
53	Other countries.....	46	108	110	121	147	(*)	(*)	(*)	(*)	16	66	13	(*)	(*)	(*)	(*)	(*)
54	Oceania, total.....	255	668	766	879	904	33	573	494	1	58	34	58	41	(*)	2	29	20
55	Australia.....	204	663	655	742	850	(*)	(*)	(*)	(*)	42	304	20	46	(*)	(*)	(*)	(*)
56	New Zealand.....	25	48	50	44	53	(*)	(*)	(*)	(*)	16	19	1	(*)	(*)	(*)	(*)	(*)
57	Other countries.....	26	57	61	93	85	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)	(*)
58	International.....	284	1,041	1,168	1,357	1,428	(*)	851	(*)	(*)	557	(*)	136	12	(*)	22	(*)	(*)

* Revised. † Preliminary. * Combined in other industries. ** Less than \$500,000.

NOTE.—Detail may not add to totals because of rounding.

¹ The value for U.S. direct investments in Canada for 1947 and subsequent years has been raised by \$132 million to include certain liabilities of Canadian financial institutions to U.S. sources previously omitted.² The estimated value of U.S. direct investments in Cuba in 1960 is carried forward from 1959 without change. No estimates have been made for net capital flows, reinvestment of subsidiary earnings, net earnings, or income receipts for Cuba for 1960.

Selected Countries and Years, and Major Industries, 1960
Earnings, by Countries with Major Industries for 1960
by Selected Countries, 1959-60, with Major Industries for 1960

(Millions of dollars)

Table 3—Continued						Table 4										Line		
Undistributed subsidiary earnings						Earnings					Income							
1960*	1960*					1960*	1960*					1960*	1960*					
	Total	Mining and smelting	Petro-leum	Manu-facturing	Other		Total	Mining and smelting	Petro-leum	Manu-facturing	Other		Total	Mining and smelting	Petro-leum		Manu-facturing	Other
1,060	1,254	66	167	627	414	2,241	5,546	494	1,292	1,176	693	2,296	2,342	337	1,133	555	219	1
282	389	36	96	234	72	713	798	88	97	388	134	345	361	47	00	176	78	2
202	215	-13	33	86	106	774	820	164	245	146	174	089	541	186	311	63	87	3
80	52	-17	7	12	60	150	126	17	2	32	74	90	85	35	-4	26	31	4
14	1					28	5					22	7					5
1	1					5	1					5	1					6
2	1					1	1					1	1					7
20	1					52	54					55	56					8
41	48					59	62					60	61					9
2	3					7	8					9	10					10
122	163					617	703					509	566					11
14	36					24	43					11	16					12
24	30					64	80					22	45					13
10	7					77	73					11	72					14
0	8					20	20					23	10					15
4	11					26	55					23	45					16
1	2					1	4					2	3					17
53	59					425	429					373	371					18
2	1					7	11					18	11					19
24	63					96	141					71	78					20
204	326					667	768					363	427					21
108	145					245	310					134	144					22
0	10					22	25					13	21					23
20	49					45	73					16	22					24
62	70					181	148					21	21					25
14	14					31	36					22	24					26
0	7					12	19					8	8					27
163	172					421	452					269	282					28
2	3					1	4					2	4					29
4	4					2	5					1	2					30
1	1					1	1					1	1					31
13	13					23	23					9	9					32
18	35					12	48					10	19					33
8	2					28	10					10	10					34
180	123					570	800					231	247					35
6	7					25	24					18	17					36
48	50					45	33					7	17					37
22	32					33	1					1	1					38
21	19					32	37					10	18					39
14	17					12	10					6	10					40
(*)	(*)					45	49					29	34					41
54	88					784	991					732	816					42
65	21					1010	721					102	701					43
10	67					101	181					114	114					44
12	12					10	14					5	1					45
12	16					11	10					46	00					46
24	17					23	32					10	15					47
8	2					13	32					8	28					48
68	74					112	115					43	37					49
61	68					102	101					37	20					50
22	4					9	11					6	7					51
34	43					61	47					14	5					52

* Income is the sum of dividends, interest, and branch profits; earnings is the sum of the U.S. share in net earnings of subsidiaries and branch profits.

Other areas

Africa.—Petroleum companies considerably stepped up their expenditures to develop North African production in 1960. Part of this was reflected in a capital outflow of about \$50 million, but an even larger amount was accounted for as exploration and development expenses and is reflected in large operating losses in the area. There was a net inflow to the United States of capital from mining and manufacturing investments in the Union of South Africa.

Asia.—In the Middle East capital outlays in petroleum were still being financed largely by the operating companies or their affiliates abroad, resulting on balance in a net capital inflow to the United States. Production of oil in the area increased substantially in 1960, and earnings also turned upward.

Most of the increased capital flow to Far Eastern countries in 1960 was accounted for by the petroleum industry, which had been withdrawing funds in 1958 and 1959.

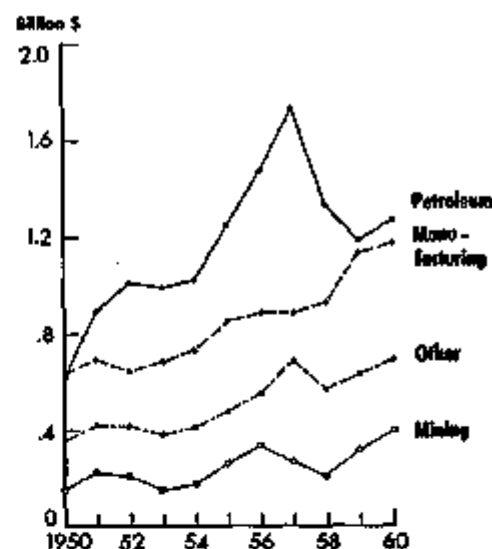
Oceania.—Direct investments in manufacturing in Australia rose considerably in 1960, with capital flows and reinvested earnings both larger than in 1959. There were minor inflows from New Zealand. Earnings in the area changed little.

International.—In this category, representing shipping subsidiaries utilizing the flags of Panama, Liberia and Honduras, there was a sharp reduction in capital outflows in 1960 as compared with 1959. Most of this represented a decline in the financing of tanker subsidiaries of petroleum companies as ship mortgages were paid off. Earnings of the tanker fleets were further depressed, but other shipping enterprises reported some improved earnings.

Industry Developments

Manufacturing.—Responding to various attractions and pressures, United States manufacturing companies raised further in 1960 the amount invested abroad through capital outflows and

EARNINGS OF DIRECT FOREIGN INVESTMENTS, BY INDUSTRY



U. S. Department of Commerce, Office of Business Economics 61-6-13

Table 5.—Direct Investments in Manufacturing Enterprises Abroad, 1950, 1957, 1959, and 1960, by Commodity
(Billions of dollars)

Area and year	Manufacturing, total	Food products	Paper and allied products	Chemicals and allied products	Rubber products	Primary and fabricated metals	Machinery (except electrical)	Electrical machinery	Transportation equipment	Other products
All areas, total										
1950	3,531	483	378	512	182	385	420	367	485	300
1957	3,009	725	722	1,378	401	941	731	731	1,304	963
1959	3,707	823	813	1,061	401	1,162	1,305	838	1,403	1,148
1960	11,182	948	801	1,902	520	1,276	1,333	918	2,119	1,301
Canada										
1950	1,867	227	358	198	50	249	264	141	180	202
1957	3,054	320	621	647	133	971	327	330	308	471
1959	4,543	367	687	745	143	773	361	307	500	625
1960	4,827	300	723	817	101	803	304	303	558	480
Latin America¹										
1950	781	158	5	205	60	23	13	70	83	165
1957	1,280	201	50	334	133	60	62	130	134	100
1959	1,417	184	50	318	149	71	57	130	200	204
1960	1,931	228	52	408	165	82	70	150	281	227
Europe										
1950	682	64	6	74	31	111	175	153	192	128
1957	2,195	149	42	319	59	178	488	214	476	272
1959	2,947	198	65	447	75	277	677	270	604	314
1960	3,797	224	63	637	60	294	782	268	1,074	415
Africa										
1950	55	0	0	8	11	1	2	3	17	6
1957	106	10	3	12	21	5	17	5	27	0
1959	220	14	3	15	23	5	20	5	29	5
1960	118	14	3	16	33	0	20	6	21	8
Asia										
1950	00	0	0	12	14	**	6	2	8	10
1957	190	14	0	40	38	20	15	12	23	18
1959	244	10	13	58	45	27	15	14	27	23
1960	280	20	15	70	64	30	18	18	28	37
Oceania										
1950	107	18	1	13	8	2	22	8	26	9
1957	314	28	3	27	17	8	26	34	140	30
1959	418	41	5	40	25	10	42	41	177	84
1960	403	58	5	47	28	12	46	47	204	44

Note: Detail may not add to totals because of rounding.

¹ Includes minor amounts in the Western Hemisphere dependencies.

** Less than \$50,000.

reinvested profits. Europe was the area receiving the largest amount of these funds—over \$800 million out of a world total of \$1.4 billion for the manufacturing industry in 1960. Common Market countries received nearly \$300 million and the United Kingdom about \$550 million, but the latter included about \$370 million for purchases of minority interests.

Manufacturing investments by United States firms in Canada continued to grow at a substantial rate, mainly out of reinvested earnings.

In Latin America, and in some others of the less developed countries, manufacturing investments are being carried out at a somewhat accelerated rate partly because of promising future markets, but also under the threat of exclusion from such markets unless local manufacture is undertaken.

Although this industry is now very actively expanding abroad, the sums being invested in Africa and Asia are still relatively small, amounting to \$30 million for both continents in 1960, about the same as in 1959.

Among the major commodity groups in the manufacturing category, the fastest growing in 1960 were transportation equipment (largely automobiles), chemicals, food products, and machinery. Other commodity groups also expanded substantially abroad, as shown in table 5.

Investments in automotive plants overseas were raised by about \$½ billion in the year, of which \$370 million resulted from the special outlay in the United Kingdom discussed above. Automotive investments also increased substantially in other European countries and in Australia.

About \$½ billion was added to U.S. investments in the chemical industry abroad in 1960, not including petrochemical plants owned by petroleum companies. Expansion by this industry was significant in Canada, Latin America, and Europe.

More than half of the \$215 million increase in investments in enterprises producing machinery was in Europe. Manufacturers of food products accelerated their rate of investment in most areas.

Petroleum—About \$600 million was added by U.S. petroleum companies to their foreign investments in 1960, raising the total stake to \$11 billion. This rate of investment was moderately higher than that of 1959, with most of the gain showing up in refinery construction in Europe and the Far East, and in distribution facilities in Canada and Europe. There was also heightened development activity in North Africa, as noted above, and in Argentina.

The industry remains moderately active in exploring throughout the world and is carrying out a large scale expansion in refineries, petrochemicals, transmission systems, and other phases of the industry.

Trade—Investments in enterprises whose major activity is trading or distribution are now growing at an accelerated rate—about \$360 million was invested in such operations abroad in 1960. Many of these enterprises also perform additional functions including licensing, management and research services, and activity as financial intermediaries.

Earnings generally higher

With increased demand abroad for petroleum, metals, and manufactures, earnings of the direct investments continued a steady advance. However, the total was still under the 1957 record despite additional investments of nearly \$7½ billion since that time.

Petroleum earnings rose most notably in the Middle East, where oil production by the companies increased 14 percent. There were moderate gains in earnings in other producing areas and from increased refinery output in Europe and elsewhere.

Earnings of the mining companies were much higher than in recent years as prices firmed and more properties reached the producing stage.

Improved earnings for manufacturing enterprises in most countries reflected general business expansion. An exception was Canada, where earnings were depressed as business activity remained low, and there was scarcely any change in manufacturing earnings in the United Kingdom.

Of the total direct-investment earnings of \$3.5 billion in 1960, about \$1.1 billion was branch profits and \$2.4 billion represented the U.S. share in the profits of foreign subsidiary companies. Of the latter amount, about \$1.25 billion, or 52 percent, was retained abroad, a proportion generally characteristic of the postwar experience.

Income receipts from abroad, as entered into the balance-of-payments accounts, included all branch profits, common dividends, preferred dividends (\$10 million in 1960) and interest (\$100 million), less any taxes withheld abroad. The income total for 1960 on this basis was \$2.3 billion, about 5 percent more than the 1959 amount. More than half

Table 6.—Selected Short-term Banking and Commercial Claims on Foreigners, by Type and Area

(Millions of dollars)

Area and type	December 1959	June 1960	December 1960	May 1961
Banking claims, total	2,624	2,764	3,496	4,088
Loans	1,808	1,118	1,290	1,304
Acceptances and other	1,000	1,371	1,814	2,188
Payable in foreign currencies	217	280	480	606
By area and country				
Europe	634	575	717	806
United Kingdom	191	181	245	171
Canada	273	273	408	478
Latin America	1,170	1,111	1,364	1,330
Other countries	442	800	1,110	1,579
Japan	323	407	796	1,201
Claims by non-financial concerns, total	790	848	1,480	n.a.

Includes temporary holdings of sterling (\$370 million) intended for direct investment in the United Kingdom. n.a.—not available.

Source: Treasury Bulletin.

of the increase in earnings for the year was retained abroad.

Other Private Foreign Investments

A significant part of the pressure on the balance of payments in 1960, offsetting gains made in the trade accounts, came from accelerated outflows of short-term funds beginning about mid-year. The accompanying chart, using the relationship between yields on United States Treasury bills and comparable bills in Canada and the United Kingdom as representative of broader changes in world money markets, shows the incentive for investing liquid funds abroad as it developed during 1960.

Interest Rate Differentials, With Forward Exchange Cover, Between Three-Month U.S. Treasury Bills and Comparable Canadian and U.K. Bills

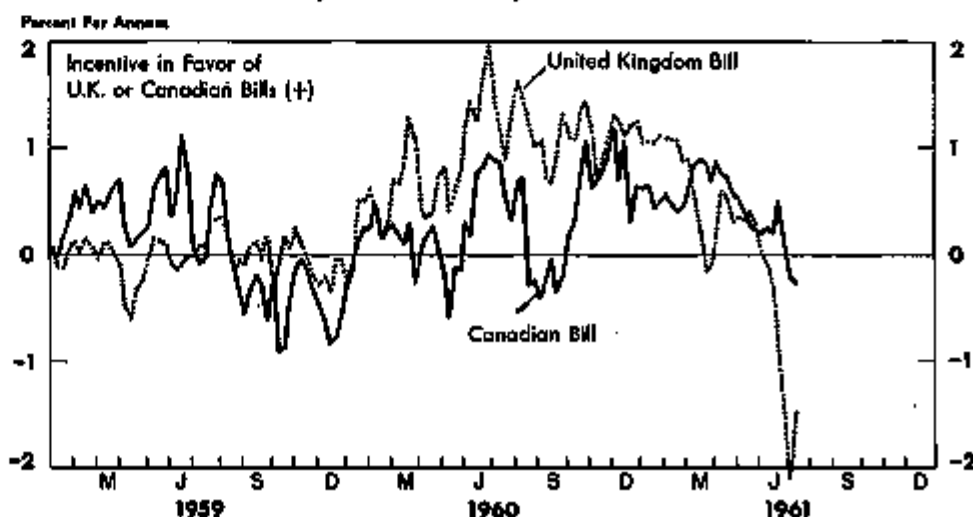


Table 7.—International Investment Position of the United States, by Area, 1959-60

(In millions of dollars)

Type of Investment	Total		Western Europe		Canada		Latin American Republics		Other foreign countries		International institutions and unallocated	
	1959 *	1960 *	1959 *	1960 *	1959 *	1960 *	1959 *	1960 *	1959 *	1960 *	1959 *	1960 *
U.S. assets and investments abroad, total.....	64,840	71,497	18,468	20,442	15,917	17,248	12,575	13,537	18,812	12,753	7,188	7,431
Private investments.....	44,918	50,295	9,128	11,231	15,907	17,235	16,745	11,473	5,741	7,436	2,220	2,508
Long-term.....	41,222	45,376	8,220	9,922	15,472	16,000	9,311	9,859	5,017	6,490	2,200	2,408
Direct.....	29,804	32,744	5,323	6,046	10,310	11,708	8,005	8,803	4,717	5,118	1,357	1,478
Foreign dollar bonds.....	4,314	4,041	327	337	2,310	2,673	140	240	334	747	903	1,024
Other foreign securities.....	4,729	4,017	1,473	1,708	2,609	2,617	40	53	175	183	83	01
Other.....	2,879	3,074	1,400	1,122	244	312	1,033	1,182	391	468	—	—
Short-term.....	3,306	4,000	800	1,312	435	535	1,436	1,028	824	1,229	—	—
U.S. Government credits and claims.....	20,012	21,122	9,340	9,211	—	—	1,328	2,044	3,871	4,024	4,968	4,923
Long-term.....	17,635	18,230	8,523	8,488	—	—	1,767	1,830	2,471	2,807	4,846	4,916
Short-term.....	2,407	2,892	818	723	10	3	156	176	1,400	7,067	—	7
Foreign assets and investments in the United States, total.....	42,148	44,662	23,120	24,645	5,997	6,196	3,794	3,720	4,402	4,837	5,927	4,968
Long-term.....	18,050	18,458	12,078	12,004	3,303	3,363	1,344	1,303	817	859	184	128
Direct.....	5,904	6,031	4,402	4,713	1,800	1,949	129	130	127	130	—	—
Corporate stocks.....	9,338	9,302	6,860	6,830	1,260	1,260	743	728	470	490	38	39
Corporate, state and municipal bonds.....	634	643	804	440	16	0	0	75	20	38	66	81
Other.....	1,340	1,577	1,003	1,000	140	190	215	228	189	191	—	—
Short-term assets and U.S. Government obligations.....	24,098	26,204	11,042	11,811	2,694	2,833	2,450	2,417	3,585	3,978	5,743	4,840
Private obligations.....	10,808	12,113	4,461	4,883	1,704	1,981	2,368	2,311	2,296	2,700	144	319
U.S. Government obligations.....	13,290	14,191	6,581	6,928	900	912	212	216	1,289	1,278	5,600	4,521
Long-term.....	2,140	2,270	633	863	303	327	167	141	93	113	960	891
Short-term.....	17,064	11,856	5,148	6,319	600	585	145	275	1,292	3,865	4,743	3,949

* Revised.

* Preliminary.

* Represents the estimated investment in shipping companies registered in Panama and Liberia.

* Consists primarily of securities payable in foreign currencies, but includes some dollar obligations, including participation in loan made by the International Bank for Reconstruction and Development.

* Total includes estimated foreign holdings of U.S. currency: 1959, \$204 billion; 1960, \$210 billion; not distributed by area.

Basic factors underlying the behavior of interest rates were sagging economic activity in the United States, which was accompanied by a fall in short-term interest rates from a peak at the beginning of the year to a low of a little over 2 percent at mid-year, and the booming economies of other industrial countries, leading to attempts by their monetary authorities to restrain credit. The flow of liquid funds toward the latter countries tended to frustrate their monetary policies, and eventually, as the loss of gold and dollars by the United States became very large, and fears of devaluation grew, flights of capital developed. In some countries this led to a shift from primary emphasis on monetary measures of restraint to increased reliance on measures other than high short-term interest rates. Short-term rates in the United Kingdom and Germany were consequently sharply reduced in the last quarter of the year, and, in the case of Germany, have

continued to decline this year. Germany also appreciated the value of its currency in March 1961.

Short-term interest rates in the United Kingdom nevertheless remained well above the United States rates, but the incentive to move funds to that market was wiped out early in the year by a widening discount on forward sterling. Recent announcement of a sharp boost in the discount rate in the United Kingdom has altered this relationship. In the case of Canada, short-term interest rates remained attractive through the first five months of 1961, and then were offset by depreciation of the Canadian dollar and lower interest rates there.

By far the largest outflow of funds, however, was recorded for Japan, as shown in table 6. Interest rates in that country persist well above those in other industrial countries, attracting both United States funds and dollars owned by residents of other countries.

Monetary authorities here and abroad are now better prepared to mitigate the disturbing effects of such capital flows, cooperating in lending short-term support to currencies coming under pressure from this source.

Private portfolio investments

Long-term private portfolio investments abroad were increased by \$1.2 billion in 1960—about the same amount as in 1959—reaching a total value of \$12.6 billion. About \$850 billion of the 1960 gain resulted from capital outflows, and the remainder consisted of improved market values for foreign stocks and dollar bonds.

U.S. purchases of new foreign securities offered here have fallen since the 1958 peak, when interest rates here were comparatively low. The total for 1960 was \$573 million, with the volume reduced after the first half and continuing at a low level this year. Canadian borrowers have lately raised a much higher proportion of their needs in their own capital market, and the other major issuer here, the International Bank, has not entered this market to any extent in this period of balance-of-payments problems. There was a considerable variety of other issues offered here in 1960, led by a \$100 million issue sold privately by a Mexican institution.

Investors in the United States added nearly \$100 million to their holdings of other foreign bonds, purchasing sizable amounts of European issues and participating in loans originated by the International Bank.

Americans reduced their acquisitions of foreign corporate stocks in 1960, but accelerated their purchases again in the first half of 1961. Most of the stocks were issues of companies on the European continent; there were net liquidations of Canadian and United Kingdom equities in 1960, reflecting a downward drift of prices in those countries.

Medium term foreign loans by U.S. banks increased by \$160 million in 1960 to a total of \$1.7 billion. Most of the increase went to Argentina and Venezuela. There was a general but moderate reduction of outstanding bank loans in the first five months of 1961. Credits extended by non-financial concerns rose moderately in most areas in 1960.